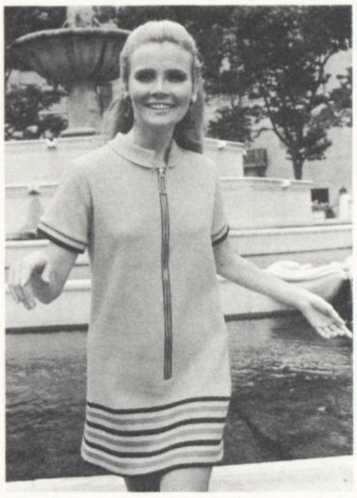
BOND'S

AMERICA'S LARGEST CLOTHIER

A WORLD OF FASHION FOR MEN, WOMEN, BOYS AND GIRLS


1967 ANNUAL REPORT

YEAR ENDED JULY 31, 1967/BOND STORES, INCORPORATED

1967

YEAR ENDED JULY 31, 1967/BOND STORES, INCORPORATED

OFFICERS

IRVING COHEN	*Chairman of the Board*
ELLIS H. SCHECHTMAN	*President*
IRVING MOSELOWITZ	*Executive Vice-President*
MAURIE SANGER	*Vice-President*
LOUIS A. GOOD	*Vice-President*
WILLIAM B. LOFTUS	*Vice-President*
SIDNEY L. ROSENBLOOM	*Vice-President*
IRVING VOGEL	*Vice-President*
GERALD J. LEVY	*Treasurer*
*LAURENCE L. SHAPIRO	*Vice-President & Secretary*
JOHN B. GOETKE	*Assistant Secretary*

**Appointed Vice-President September 15, 1967*

BOARD OF DIRECTORS

H. ROE BARTLE
IRVING COHEN
LOUIS A. GOOD
JOSEPH KLINGENSTEIN
IRVING MOSELOWITZ
MORRIS NATELSON
CHARLES F. PHILLIPS
MAURIE SANGER
ELLIS H. SCHECHTMAN

TRANSFER AGENT

FIRST NATIONAL CITY BANK, 55 Wall Street, New York, N.Y. 10015

REGISTRAR

BANKERS TRUST COMPANY, 16 Wall Street, New York, N.Y. 10015

BOND STORES, INCORPORATED

FIFTH AVENUE AT 35TH STREET, NEW YORK, N.Y. 10001

October 16, 1967

Dear Fellow Stockholder:

Results of operations of your Company and of its wholly-owned subsidiaries for the fiscal year ended July 31, 1967, are set forth in the accompanying consolidated report herewith submitted to you on behalf of your Board of Directors.

Sales for the fiscal year ended July 31, 1967 were $99,258,806 (a new record high), an increase of $1,520,776 over sales of $97,738,030 in fiscal 1966.

Net income amounted to $1,797,867, equal to $1.54 per common share on the average of 1,166,147 of such shares outstanding. Earnings per share on the average number of shares outstanding during the year ended July 31, 1966, amounted to $1.75. Contributing to the decline in earnings were increases during the year in store, office and factory salaries, wages and expenses, while limiting gross margin increases to modest levels in furtherance of company policy of offering its products at favorably competitive prices.

In our opinion, it is fair to assume that our volume increase and profit would have been somewhat higher except for the extremely unseasonal and adverse weather conditions we experienced in many parts of the country, particularly during the months of October 1966 (normally one of the better retail selling months of the year), February and March 1967. In addition, industry strikes in many areas where we have stores contributed to their volume slowdown. Civil unrest in a number of cities where your Company has one or more store locations had a dampening and adverse effect on business. In several of those areas, stores were closed for days at a time and/or were on a reduced schedule of store hours in compliance with the requests of local authorities. During the recent civil unrest in Detroit, Michigan, our store, located at the corner of Grand River Avenue and Joy Road, was broken into, looted, furniture and fixtures substantially destroyed and the premises further destroyed by fire. Although the loss is fully insured, we do not intend to re-open this store.

Dividend distribution at the rate of $1.00 per annum per common share amounted to $1,166,064. It is to be noted that this is a continuance of our uninterrupted pattern of dividend payments since 1938. The balance of earnings was added to surplus.

Net working capital amounted to $41,887,851. The ratio of current assets to current liabilities was 3.4 to 1. Book value per common share on the 1,164,339 shares of stock outstanding at the fiscal year end was $37.54

compared with $35.96 as of the prior fiscal year end.

Stockholders will recall that during the last fiscal year, the Company made a one-time sale of its retail accounts receivable in connection with the adoption of the installment method of accounting for credit sales. It should be noted that $3,575,000 of Federal income taxes has been deferred. This is one of the benefits of the aforementioned transaction and contributes to the liquidity of the Company's business.

During the year, four new stores were opened, one of which was our rebuilt and substantially enlarged downtown Rochester, New York store. The gratifying results we have experienced during the approximate one year since its opening affirm the practicality of our decision to undertake this extensive remodeling project. In addition to the closing of our store at Grand River Avenue and Joy Road, Detroit, referred to above, we closed one non-productive small store upon lease termination.

During the 1968 fiscal year, we plan to open six new stores, plus modernizing and refurbishing a number of our existing stores where warranted by current and anticipated volume and profit performance. In connection with these projects, we will continue substantially our policy of limiting our capital expenditures to movable trade fixtures, while requiring landlords to undertake the major expenditure in connection with land and building improvements and store construction. Capital expenditures during the 1967 fiscal year amounted to $759,345.

Stockholders will recall management's comment in last year's report in connection with the Invitation For Tenders of 500,000 common shares of the Company, that it was the Company's intention to finance this purchase through mortgage or sale of certain of its real estate holdings. Pending such a transaction, the purchase of the shares was financed through bank borrowings. Since then, several of the Company's mortgaged properties were refinanced by mortgages of substantially larger amounts, which enabled the Company to reduce its term bank debt from $14,500,000 to $9,500,000. It should be noted that each of the mortgaged properties is owned by a wholly-owned subsidiary; that the parent company is not liable under such mortgages, but is the lessee of the properties under long-term leases, the leases being assigned as collateral under the mortgages. Currently, discussions with a number of prospects are under way in connection with the possible sale and/or mortgaging of the Company's Times Square, New York City property. If and when this is consummated, the proceeds will be applied in a further substantial reduction in the term bank debt. However, in view of the current increasing interest in real estate and the building refurbishing activity in this area, your management deems it advisable to "make haste slowly."

While we are continuing the review of possible acquisitions, we are expanding our operations through new store openings and the establishment and development of two divisions, one for the mail order sale of apparel to big and tall men and another for the mail order sale of merchandise other than apparel. Both divisions are beginning to show encouraging results.

Mr. Irving Moselowitz, Chairman of our Operating Board and Executive Vice President of the Company, has recently returned from abroad after meeting with government and other officials of several foreign countries, principally with respect to our program of recruiting highly skilled tailors. The encouraging results we have experienced during the several years of this recruitment activity warrant a continuance thereof.

We are pleased to report that sales for the months of August and September were 4.4% ahead of sales for the same two month period last year which, in turn, were 13.7% ahead of August and September 1965

sales. In view of this increase, we are encouraged to anticipate a profitable Fall, Winter and Christmas season.

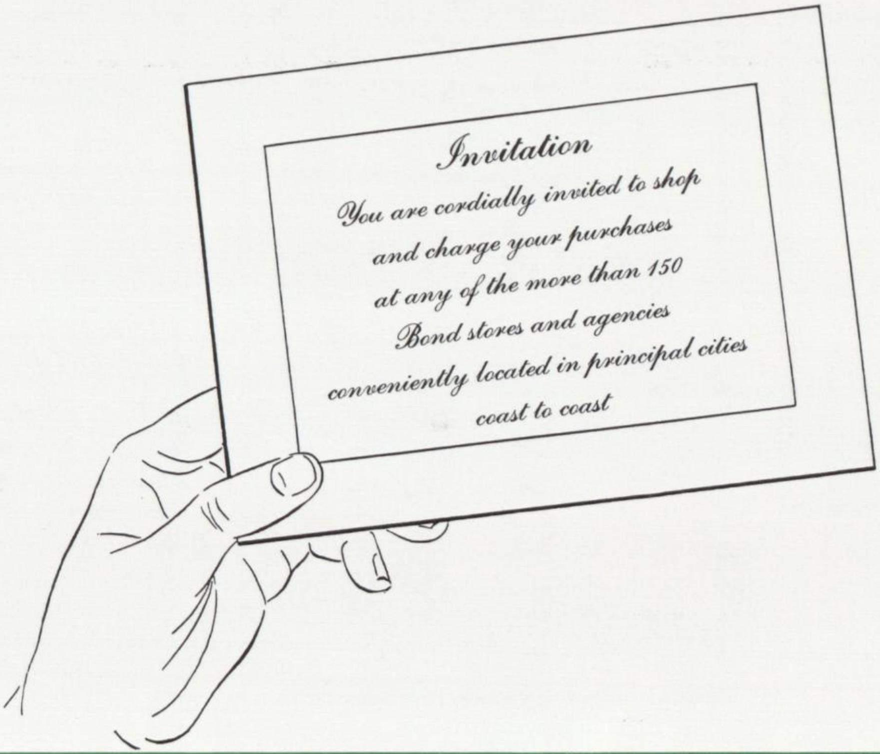
As in past years, we again give recognition to the enthusiasm and dedication of our executive group and all other personnel who have contributed so unstintingly of themselves toward accomplishing the reported upon results. We would also like to express our appreciation to our many suppliers, whose cooperation has been so helpful. We invite you, our stockholders, to visit our stores to see for yourselves the extensive diversification of our merchandise by style, color, pattern and design, as well as the outstanding competitive values reflected in our modest pricing.

Featured items for the entire family for the Christmas season are shown in the enclosed advance copy of our 1967 Christmas brochure, which we plan to mail to our customers on or about November 20th.

Respectfully submitted,

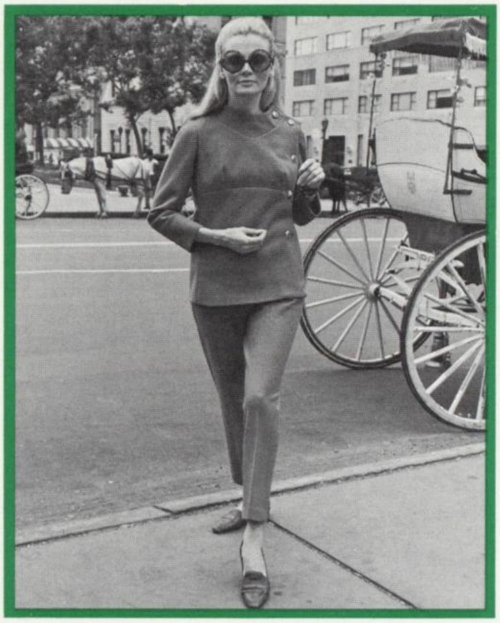
President

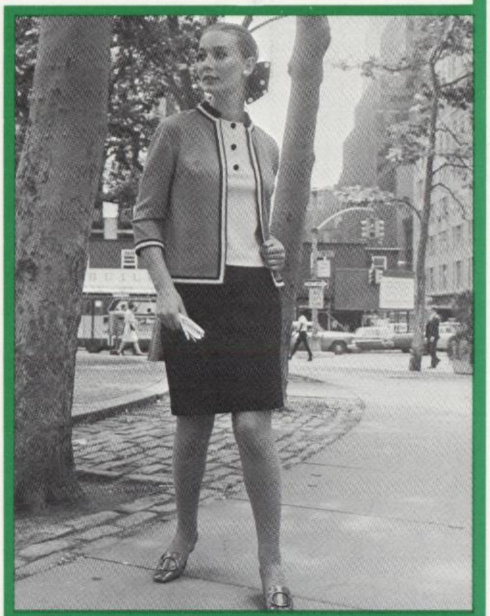
Chairman of the Board

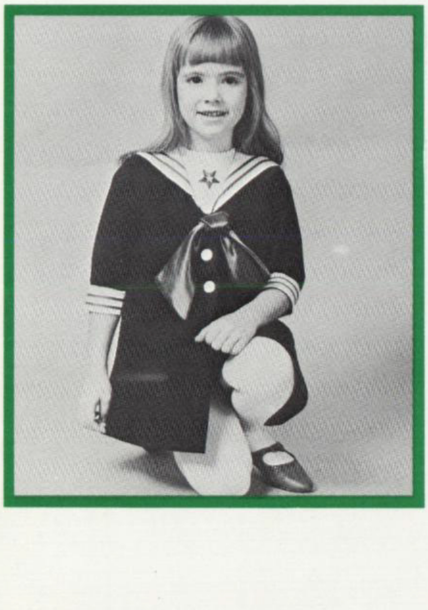


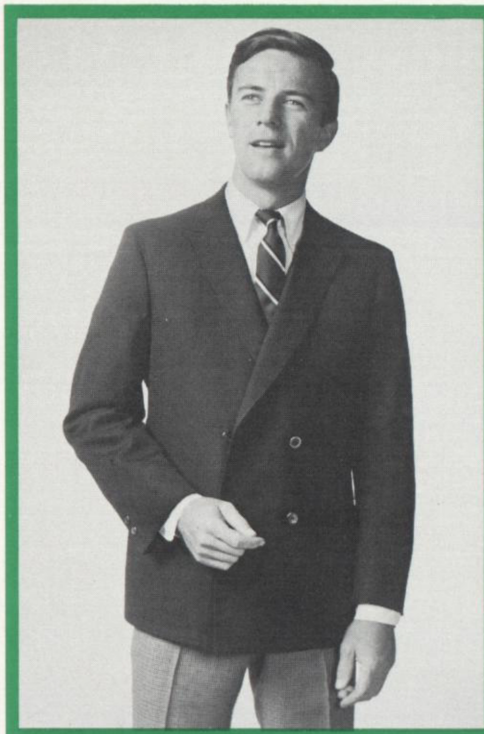
FASHION IS OUR BUSINESS

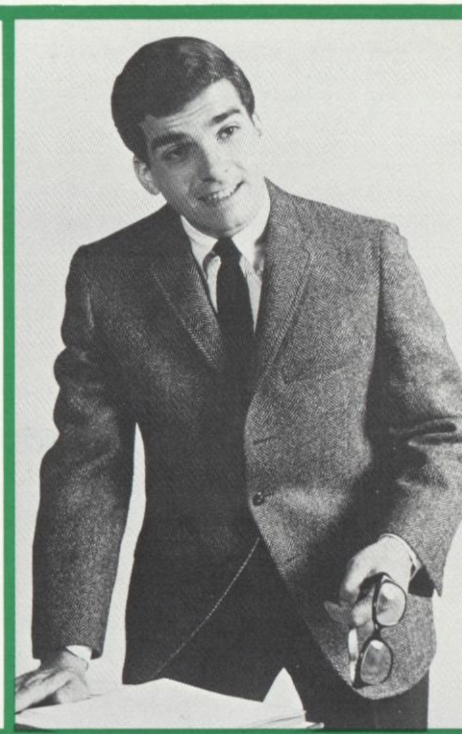
The story of fashion is one that has no ending. It is changing constantly, sometimes radically . . . sometimes subtlely . . . but it is always changing, always on the move. Each season brings new ideas and new concepts. With us, fashion is our way of life. It is our business. We live and breathe it every day and just as it is our business, it becomes our responsibility to bring to our customers from coast-to-coast the latest in fashion . . . in design . . . in fabric and this we do as reflected in the samplings from our collection of men's, women's, boys' and girls' apparel pictured on these pages . . .

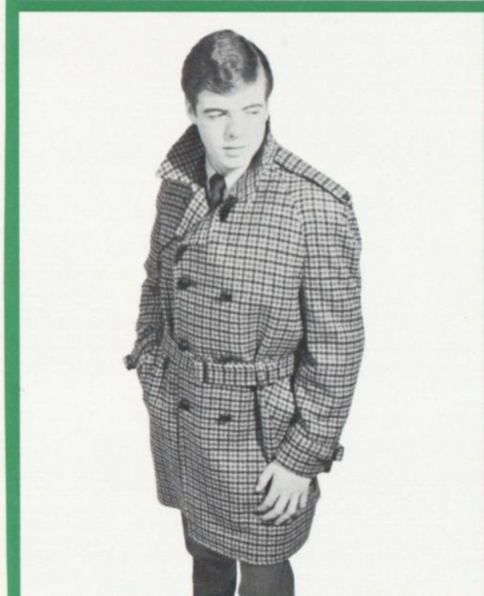






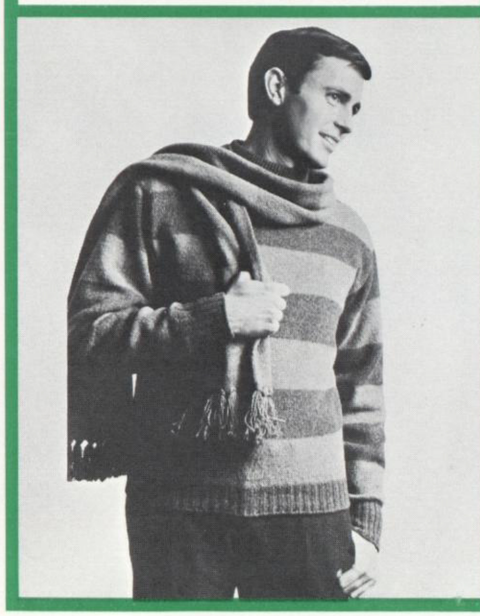


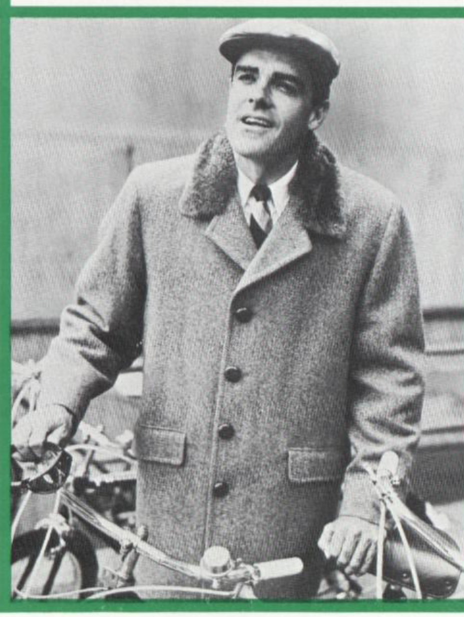


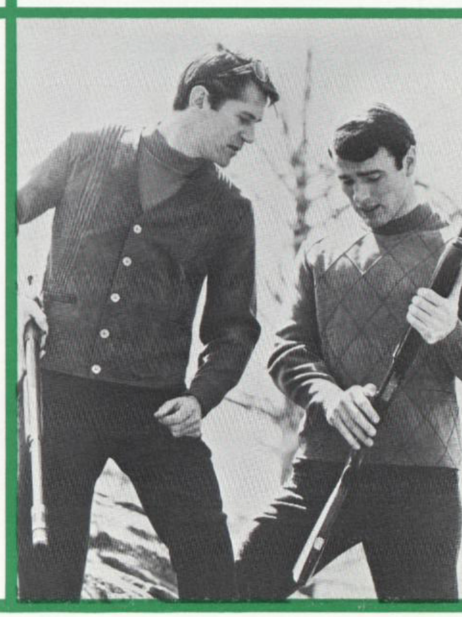


. . . P.S.

And
outstanding
value,
too!







BOND STORES, INCORPORATED AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED BALANCE SHEET AS AT JULY 31, 1967-1966

ASSETS

	1967	1966
Current Assets:		
Cash	$ 4,244,295	$20,117,008
Accounts receivable—customers, less reserve of $560,621	21,508,075	
Due from bank—Note A	149,592	3,487,804
Miscellaneous accounts receivable, including refundable Federal income taxes of $650,000 in 1967—Note D	1,112,204	1,015,984
Merchandise inventories—Note B:		
Woolens, trimmings, etc.	4,228,764	5,078,831
Work in process	2,099,473	1,415,061
Finished goods	25,692,773	24,132,958
	32,021,010	30,626,850
Total Current Assets	59,035,176	55,247,646
Other Assets	1,044,798	883,780
Fixed Assets—at cost—Note C:		
Land and buildings	10,890,346	10,790,089
Machinery, furniture, fixtures and equipment	9,562,266	9,290,517
Alterations, improvements and leaseholds	2,930,029	2,798,807
	23,382,641	22,879,413
Less: Reserves for depreciation and amortization	9,375,351	8,618,376
	14,007,290	14,261,037
Deferred Charges:		
Prepaid rent and advances to landlords on improvements to leased properties	640,982	761,652
Unexpired insurance and other prepaid expenses	965,815	844,801
	1,606,797	1,606,453
	$75,694,061	$71,998,916

EXHIBIT A

LIABILITIES

	Shares	1967	1966
Current Liabilities:			
Notes payable—banks		$ 4,500,000	$ 4,000,000
Due to bank—Note A		1,002,954	
Accounts payable		2,910,992	2,898,745
Deposits and due to customers		414,569	385,080
Accrued expenses and sundry liabilities		3,540,067	3,617,820
Mortgages payable—current installments—Note C		121,677	180,525
Reserve for Federal income taxes			2,072,622
Deferred Federal income taxes—Notes B and D		4,657,066	
Total Current Liabilities		17,147,325	13,154,792
Long Term Debt—Note C		14,140,729	16,102,605
Reserve for Unrealized Profit on Sale of Leasehold		700,000	725,000
Capital Stock and Surplus:			
Preferred Stock—par value $100 per share:			
Authorized to be issued in series as designated by the Board of Directors	100,000		
Retired and cancelled	60,000		
Authorized but not designated	40,000		
Common Stock—par value $1 per share:			
Authorized	2,500,000		
Issued	1,688,383	1,688,383	1,688,383
Capital Surplus (no change during the year)		11,596,136	11,596,136
Earned Surplus—Exhibit B		46,471,427	44,699,734
		59,755,946	57,984,253
Less: Treasury stock—at cost (524,044 and 519,844 shares of Common Stock, respectively)		16,049,939	15,967,734
		43,706,007	42,016,519
		$75,694,061	$71,998,916

The accompanying notes are an integral part of this statement.

BOND STORES, INCORPORATED AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

EXHIBIT B

	For the Year Ended July 31 1967	For the Year Ended July 31 1966
Sales	$99,258,806	$97,738,030
Cost of goods sold and stores and general and administrative expenses, exclusive of depreciation and amortization—Note E	94,823,194	91,471,239
	4,435,612	6,266,791
Add:		
Income from owned real estate before depreciation—Note F	172,689	234,938
Other income—net	521,527	212,663
	694,216	447,601
	5,129,828	6,714,392
Deduct:		
Depreciation and amortization	1,063,900	1,076,767
Interest expense	943,061	315,902
Loss on sale of customers accounts receivable—Note A		435,206
	2,006,961	1,827,875
Net income before Federal income taxes	3,122,867	4,886,517
Provision for Federal income taxes—net—Note D	1,325,000	2,225,000
Net income	1,797,867	2,661,517
Earned Surplus as at July 31, 1966-1965	44,699,734	43,461,678
Inventory revision as at July 31, 1967 net of applicable Federal income taxes (deferred) of $1,052, 206—Note B	1,139,890	
	47,637,491	46,123,195
Dividends on Common Stock	1,166,064	1,423,461
Earned Surplus as at July 31, 1967-1966—Exhibit A	$46,471,427	$44,699,734

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JULY 31, 1967

SOURCE OF FUNDS:	
Net income	$1,797,867
Depreciation and amortization	1,063,900
Inventory revision	1,139,890
Increase in mortgages payable	4,538,124
	$8,539,781
APPLICATION OF FUNDS:	
Dividends on Common Stock	$1,166,064
Increase in other assets and deferred charges	186,362
Additions to fixed assets—net	810,153
Reduction of long term borrowing	6,500,000
Purchase of 4,200 shares of the Corporation's Common Stock (included in treasury stock in the accompanying consolidated balance sheet)	82,205
(Decrease) in working capital	(205,003)
	$8,539,781

BOND STORES, INCORPORATED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS AS AT JULY 31, 1967

The accompanying financial statements as at and for the year ended July 31, 1966, are shown for comparative purposes only. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE A:

The balance due from bank of $149,592, and due to bank of $1,002,954, as at July 31, 1967, represent amounts arising from the operations of the agreement whereby customers accounts receivable were sold to the bank as at July 31, 1966.

The sale was made to facilitate the adoption of the installment method of accounting for Federal income tax purposes (see Note D). Under this method, gross profit from installment sales is included in taxable income as collected rather than at the time such sales are made.

NOTE B:

As at the close of business July 31, 1967, the Corporation revised its method of pricing the merchandise inventories principally relating to goods manufactured by the Corporation. The merchandise inventories as at July 31, 1967 are stated in the accompanying consolidated balance sheet at the lower of cost (prime cost including other manufacturing costs as to goods manufactured by the Corporation, retail inventory method or invoice cost as to other merchandise) or market. The effect of this revision was credited to Earned Surplus as at July 31, 1967. It is estimated that the application of this revised method in the determination of income would have had no material effect on the income of the current or prior year.

Although the Corporation has provided for deferred Federal income taxes on the effect of this revision, it intends to file its tax returns on its old method which is advantageous for income tax purposes; to do so, the books must conform with the tax returns. Accordingly, the Corporation has effected this revision for financial statement purposes only and the old method will be continued for book and tax purposes.

NOTE C:

Long term debt consists of the following:

Loans payable–banks–net of current installment of $1,500,000	$8,000,000
Mortgages payable by subsidiaries–net of current installments	6,140,729
	$14,140,729

The loan agreement with the participating banks dated April 1, 1967, provides for the repayment of $3,000,000 in equal installments on September 1, 1968, March 31, 1969 and September 1, 1969, and $5,000,000 on December 31, 1969. Interest is payable quarterly at one quarter of one percent above the prime interest rate. The loan agreement provides, among other things, restrictions relating to mortgage indebtedness, additional borrowing, mergers and acquisitions, minimum working capital, disposition of net proceeds from sale of real property, sale of stock and payment of dividends (other than in common stock of the Corporation). As at July 31, 1967, approximately $819,000 is available for dividends, etc.; in addition 50% of net earnings after July 31, 1967 will also be available for such purposes.

Properties owned by subsidiaries are subject to first mortgages in the amounts of $3,985,000, $2,000,000 and $277,406, payable in installments to May 1, 1993, June 1, 1987 and September 1, 1974, respectively. At said dates, the unamortized balances of the mortgages become due and payable. The Corporation is not liable under such mortgages, but is the lessee of certain of the properties under long-term leases, which leases are assigned as collateral under the mortgages.

NOTE D:

Deferred Federal income taxes of $4,657,066 is comprised of $3,575,000 as set forth below, $1,052,206 with respect to the item commented upon in Note B and sundry of $29,860.

Due to the adoption of the installment method of accounting for Federal income tax purposes (see Note A), the current provision for Federal income taxes (net) consists of a provision for deferred Federal income taxes of $3,575,000 less Federal income tax credits of $2,250,000.

The Federal income tax returns of the Corporation have been examined to July 31, 1965.

NOTE E:

Cost of goods sold and stores and general and administrative expenses, exclusive of depreciation and amortization, consist of the following:

Cost of goods sold, including occupancy, buying and alteration costs	$67,410,749
Stores and general and administrative expenses	27,412,445
	$94,823,194

The Employees' Profit Sharing and Retirement Fund Trust Agreement, as amended, provides, among other things, for (1) voluntary contributions by eligible employees, (2) contributions by the Corporation and its subsidiaries, out of net earnings for the year as defined in the agreement, based upon the participating employees' contributions, (3) additional contributions by the Corporation and its subsidiaries computed at various percentages of net earnings for the year as defined in the agreement after deducting therefrom $4,000,000 plus $1 per share for any additional shares which the Corporation may issue after December 31, 1952, excluding additional shares resulting from stock dividends or split-up of stock, and (4) the right of the Corporation to discontinue contributions to the plan. The contributions of the Corporation and its subsidiaries for the year ended July 31, 1967, amounted to $38,970.

NOTE F:

This item includes intercompany rental on property partly occupied by the Corporation.

GENERAL:

As at July 31, 1967, the aggregate minimum annual rental upon real property leases, other than intercompany leases, amounts to approximately $3,880,000. Of the foregoing amount, $508,000 expires prior to 1970, $1,967,000 expires between 1970 and 1980 and $1,405,000 expires thereafter. Certain of these lease agreements provide for additional rentals based on sales or for payment of certain expenses, such as real estate taxes and maintenance costs.

In connection with the profitable sale in a prior year of a leasehold which expires on April 30, 1998, the Corporation guaranteed performance (guaranteed in turn to the Corporation by the parent company of the purchaser) of the obligations under the lease to April 30, 1996, including net annual rental payments of $24,000 to April 30, 1975, and $32,500 thereafter.

The Corporation, certain of its officers and directors and others are defendants in a Stockholder's derivative action now pending in the U.S. District Court for the Southern District of New York. No monetary recovery is sought against the Corporation. The Corporation's By-Laws provide for indemnification of directors and officers in certain situations against costs and expenses reasonably incurred by them in such cases. Inasmuch as such costs and expenses, if any, which may be incurred in this action have not been determined, no provision has been made therefor in the accompanying financial statements.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS

BOND STORES, INCORPORATED, NEW YORK, N.Y.

We have examined the consolidated balance sheet of Bond Stores, Incorporated, and subsidiaries as at July 31, 1967, and the related consolidated statement of income and earned surplus and the supplemental consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus, present fairly the consolidated financial position of Bond Stores, Incorporated, and subsidiaries at July 31, 1967, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent, in all material respects, with that of the preceding year. It is also our opinion that the consolidated statement of source and application of funds presents fairly the information shown therein.

NEW YORK, N. Y.
OCTOBER 11, 1967

S. D. LEIDESDORF & CO.

LOCATION OF BOND STORES AND AGENCIES

ALABAMA
BIRMINGHAM

CALIFORNIA
ANAHEIM
CANOGA PARK
EL MONTE
GLENDALE
HOLLYWOOD
HUNTINGTON BEACH
HUNTINGTON PARK
LAKEWOOD CENTER
LOS ANGELES (5 stores)
NORTH HOLLYWOOD
OAKLAND (2 stores)
PANORAMA CITY
SAN DIEGO (3 stores)
SAN FRANCISCO
SAN JOSE (2 stores)
WEST COVINA

COLORADO
DENVER

CONNECTICUT
HAMDEN
HARTFORD
MILFORD
NEW HAVEN
*NEW LONDON
*TORRINGTON
TRUMBULL

DELAWARE
*WILMINGTON

DISTRICT OF COLUMBIA
WASHINGTON (2 stores)

FLORIDA
*JACKSONVILLE

GEORGIA
ATLANTA

ILLINOIS
CHICAGO (8 stores)
HILLSIDE
KANKAKEE
NILES

IOWA
DES MOINES

KENTUCKY
LOUISVILLE (3 stores)

LOUISIANA
*MONROE

MARYLAND
BALTIMORE (2 stores)
HYATTSVILLE

MASSACHUSETTS
BOSTON
FALL RIVER
*LAWRENCE
NATICK
REVERE

MICHIGAN
DETROIT
MADISON HEIGHTS
MT. CLEMENS
PONTIAC

MINNESOTA
MINNEAPOLIS

MISSOURI
KANSAS CITY
ST. LOUIS (4 stores)

NEBRASKA
*HASTINGS

NEW JERSEY
AUDUBON
EATONTOWN
JERSEY CITY
MENLO PARK
MOORESTOWN
NEWARK
NEW BRUNSWICK
PARAMUS
TRENTON

NEW YORK
ALBANY
BUFFALO
*ELMIRA
HICKSVILLE, L.I.
HUNTINGTON, L.I.
NEW HYDE PARK, L.I.
NEW YORK (6 stores)
ROCHESTER (3 stores)
SCHENECTADY
SYRACUSE (2 stores)
VALLEY STREAM, L.I.
BAY SHORE, L.I.

OHIO
AKRON (4 stores)
CANTON
CINCINNATI (2 stores)
CLEVELAND (5 stores)
COLUMBUS (2 stores)
DAYTON
LORAIN
*SALEM
TOLEDO (2 stores)
YOUNGSTOWN

PENNSYLVANIA
*CHESTER
PHILADELPHIA (3 stores)
PITTSBURGH (2 stores)
READING
SCRANTON
WILKES-BARRE

RHODE ISLAND
PROVIDENCE

TENNESSEE
CHATTANOOGA
MEMPHIS (2 stores)

TEXAS
AUSTIN
DALLAS (4 stores)
FORT WORTH (2 stores)
HOUSTON (5 stores)
SAN ANTONIO (2 stores)

VERMONT
*BARRE
*RUTLAND

VIRGINIA
ALEXANDRIA
FALLS CHURCH

WEST VIRGINIA
*PARKERSBURG

WISCONSIN
MILWAUKEE (2 stores)

*AGENCIES

Factories in Rochester, Poughkeepsie & Buffalo, N. Y., New Brunswick, N. J., and Meridian, Miss.